

Message Text

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PAGE 01 WELLIN 02456 130527Z

16

ACTION EA-14

INFO OCT-01 ISO-00 AGR-20 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 7140

INFO AMEMBASSY CANBERRA

LIMITED OFFICIAL USE WELLINGTON 2456

E.O. 11652: N/A

TAGS: ECON; EFIN; ETRD, NZ

SUBJECT: NEW ZEALAND'S REVALUATION

REF: WELLINGTON'S 2403

1. SUMMARY THE FOLLOWING ARE EMBASSY COMMENTS ON GNZ'S TEN PER CENT REVALUATION. NEW ZEALAND'S GROWING INFLATION HAS BEEN A GROWING CONCERN TO THE GNZ. CONSUMERS HAVE BEEN INCREASINGLY CRITICAL. THE ECONOMY IS OPERATING AT FULL CAPACITY WITH MATERIALS AND LABOR SHORTAGES. THE LARGE AND INCREASING FOREIGN EXCHANGE HOLDINGS INDICATE THE NZ DOLLAR IS STRONG. EXPORT INCOMES ARE GENERALLY KEEPING UP. PRICES OF PRINCIPAL EXPORTS ARE STILL HIGH. THE RE-VALUATION AND OTHER GNZ MEASURES SHOULD HELP STEM THE INFLATION. THE EFFECT ON US-NZ TRADE WILL BE SMALL.

2. NEW ZEALAND HAS BEEN GRIPPED OVER THE PAST SEVERAL MONTHS BY INFLATION. FARM INCOMES, COMPANY
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PAGE 02 WELLIN 02456 130527Z

RETURNS AND PRIVATE INCOMES COUPLED WITH HIGH CONSUMPTION

AND INVESTMENT, FED BY HIGH PRICES FOR AND
INCREASING VOLUME OF EXPORTS AND RISING COSTS AND
VOLUME OF IMPORTS, ALL REFLECT THIS UPWARD TREND.
RECENT EIGHT AND ONE HALF PER CENT GENERAL WAGE INCREASE
-DECREED TO HEAD OFF EVEN LARGER GENERAL INCREASES
DEMONSTRATE AS MUCH AS CONTRIBUTE TO THE INFLATIONARY
PRESSURES. SOME DRASTIC MEASURES SEEMED NECESSARY TO
TAKE SOME OF THE STEAM OUT OF THE INFLATION WHICH WAS
PREDICTED TO BE AT LEAST TEN PER CENT FOR THIS YEAR.

3. THE CONSUMERS HAVE BEEN BECOMING INCREASINGLY
VOCIFEROUS OVER INFLATION. THE SECRETARY OF THE
TREASURY TOLD CHARGE SEPTEMBER 12 THAT THIS HAS BEEN VERY DISTURBING
TO THE GOVERNMENT. IT WAS FELT SOME ACTION HAD TO BE
TAKEN. HE SAID THE TEN PER CENT REVALUATION WAS
REGARDED BY GNZ TO BE THE MINIMUM.

4. FORTUNATELY THE FOREIGN EXCHANGE RESERVES ARE
AT AN ALL TIME HIGH AND EXPORT VOLUME AND PRICES ALSO
CONTINUE HIGH. WITH THE DEMAND STRONG FOR MANUFACTURED
AND PROCESSED COMMODITIES THE LOCAL INDUSTRY IS OPERATING
AT FULL CAPACITY WITH SHORTAGES OF MATERIALS AND LABOR
LIMITING GREATER PRODUCTION.

5. THOUGH MANUFACTURES ARE COMPLAINING ABOUT INJURY
TO THEIR EXPORT COMPETITIVENESS, THE FACT IS MOST
INDUSTRIAL EXPORTS GO TO AUSTRALIA AND WITH AUSTRALIA'S
FIVE PER CENT REVALUATION COUPLED WITH ITS INFLATION NZ
INDUSTRY SHOULD SUFFER MILDLY, AT LEAST IN THE SHORT
RUN.

6. THE SECTOR TO BEAR THE LARGEST BRUNT WILL BE
THE FARMERS. THEIR INCOMES WILL DROP. BUT THEY ARE
ALREADY GETTING HIGH PRICES FOR MOST EXPORTS, SO A DROP
IN MOST CASES CAN BE ABSORBED. INCOME FROM CERTAIN
DAIRY PRODUCTS AS BUTTER WILL STAND TO SUFFER MOST.

7. THE TEMPORARY LIBERALIZATION OF SOME IMPORTS WILL
PROBABLY HAVE ONLY A MILD DEFLATIONARY EFFECT. SEVENTY
MILLION NZ DOLLARS REPRESENTS ONLY A LITTLE OVER 23 DOLLARS
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PAGE 03 WELLIN 02456 130527Z

PER PERSON. THERE IS DOUBT IN INDUSTRIAL CIRCLES THAT
THERE CAN BE A SIGNIFICANT INCREASE IN AUTO IMPORTS BY
THE DEAD-LINE OF NEXT MARCH. THOUGH THE LIST OF OTHER
ITEMS TO BE ALLOWED INCREASED IMPORTS HAS NOT YET BEEN
PUBLISHED, SOME OF THESE MAY SUFFER THE SAME FATE.

9. THE REVALUATION, ALONG WITH OTHER MEASURES ANNOUNCED
BY THE PRIME MINISTER PLUS THOSE ALREADY TAKEN SUCH AS

PRICE CONTROLS, LIMITING WAGE INCREASES, RESTRICTING THE PASSING ON TO THE CONSUMER OF COST INCREASES, ETC. SHOULD HAVE THE DESIRED EFFECT OF SLOWING THE UPWARD INFLATIONARY TREND. IT WILL PROBABLY NOT AFFECT THE VOLUME OF EXPORTS SIGNIFICANTLY. PROBLEMS OF SUPPLY ABROAD MAY LIMIT IMPORT INCREASES IN THE SHORT RUN.

10. THE EFFECT ON THE POTENTIAL FOR INCREASED U.S. EXPORTS TO NZ WILL PROBABLY BE MARGINAL. THE MARCH 1974 TIME LIMIT PLACED ON INCREASES IN CERTAIN CONSUMER GOODS AND MATERIALS IMPORTS COULD LIMIT ANY U.S. EXPORT OPPORTUNITIES DUE MINIMAL AVAILABILITY ADDITIONAL U.S. PRODUCTS DESIRED BY NZ WHICH COULD BE DELIVERED BY MARCH.

11. MOST EXPORTS TO THE U.S. ESPECIALLY OF MEAT PRODUCTS SHOULD NOT BE AFFECTED, THOUGH THERE WAS A COMMENT BY A DAIRY BOARD OFFICIAL THAT THE NEW PRICE IN NEW ZEALAND DOLLARS FOR NON-FAT DRY MILK MAY MAKE THIS EXPORT TO THE U.S. LESS INTERESTING.

WOOD

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